

[Statutory Authority: RCW 74.46.270, 97-17-040, § 388-96-534, filed 8/14/97, effective 9/14/97; Statutory Authority: RCW 74.46.800, 96-15-056, § 388-96-534, filed 7/16/96, effective 8/16/96; Statutory Authority: RCW 74.46.800, 94-12-043 (Order 3737), § 388-96-534, filed 5/26/94, effective 6/26/94; Statutory Authority: 1987 c 476, 88-01-126 (Order 2573), § 388-96-534, filed 12/23/87; Statutory Authority: RCW 74.09.120, 83-19-047 (Order 2025), § 388-96-534, filed 9/16/83, 80-09-083 (Order 1527), § 388-96-534, filed 7/22/80.]

WAC 388-96-535 Management agreements, management fees, and central office services. (1) The contractor shall disclose to the department the nature and purpose of the management agreement, including an organizational chart showing the relationship between the contractor, management company and all related organizations. The department may request additional information or clarification.

(2) Acceptance of a management agreement may not be construed as a determination that all management fees or costs are allowable in whole or in part. Management fees or costs not disclosed or approved in conformity with chapter 74.46 RCW and this section are unallowable. When necessary for the health and safety of medical care recipients, the department may waive the sixty-day or thirty-day advance notice requirement of RCW 74.46.280 in writing.

(3) Management fees are allowable only for necessary, nonduplicative services that are of the nature and magnitude that prudent and cost-conscious management would pay. Costs of services, facilities, supplies and employees furnished by the management company are subject to RCW 74.46.220.

(4) Allowable fees for all general management services of any kind referenced in this section, including corporate or business entity management and management fees not allocated to specific services, are subject to any applicable cost center limit established in chapter 74.46 RCW.

(5) Central office costs, owner's compensation, and other fees or compensation, including joint facility costs, for general administrative and management services, including management expense not allocated to specific services, shall be subject to any cost center limit established by chapter 74.46 RCW.

(6) Necessary travel and housing expenses of nonresident staff working at a contractor's nursing facility shall be considered allowable costs if the visit does not exceed three weeks.

(7) Bonuses paid to employees at a contractor's nursing facility or management company shall be considered compensation.

[Statutory Authority: RCW 74.46.800, 98-20-023, § 388-96-535, filed 9/25/98, effective 10/1/98; Statutory Authority: RCW 74.46.800 and 74.09.120, 93-19-074 (Order 3634), § 388-96-535, filed 9/14/93, effective 10/15/93; Statutory Authority: 1987 c 476, 88-01-126 (Order 2573), § 388-96-535, filed 12/23/87; Statutory Authority: RCW 74.46.800, 86-10-055 (Order 2372), § 388-96-535, filed 5/7/86, effective 7/1/86; Statutory Authority: RCW 74.09.120, 83-19-047 (Order 2025), § 388-96-535, filed 9/16/83, 81-22-081 (Order 1712), § 388-96-535, filed 11/4/81; Statutory Authority: RCW 74.09.120 and 74.46.800, 81-06-024 (Order 1613), § 388-96-535, filed 2/25/81; Statutory Authority: RCW 74.09.120, 80-09-083 (Order 1527), § 388-96-535, filed 7/22/80, 79-03-020 (Order 1371), § 388-96-535, filed 2/21/79, Order 1262, § 388-96-535, filed 12/30/77.]

WAC 388-96-536 Does the department limit the allowable compensation for an owner or relative of an

owner? (1) The department shall limit total compensation of an owner or relative of an owner to ordinary compensation for necessary services actually performed.

(a) Compensation is ordinary if it is the amount usually paid for comparable services in a comparable facility to an unrelated employee, and does not exceed any applicable limit set out in chapter 74.46 RCW.

(b) A service is necessary if it is related to patient care and would have had to be performed by another person if the owner or relative had not done it.

(2) If the service provided would require licensed staff, e.g., RN, then the same license standard must be met when performed by an owner, relative or other administrative personnel.

[Statutory Authority: RCW 74.46.800, 98-20-023, § 388-96-536, filed 9/25/98, effective 10/1/98.]

WAC 388-96-540 Will the department allow the cost of an administrator-in-training? (1) The department shall not allow costs of an administrator-in-training for the purpose of setting the operations component prospective payment rate allocation.

(2) The department shall pay the costs of an approved administrator-in-training program by an add-on to the current prospective payment rate, unless the operations cost center is at or above the median cost limit for the facility's peer group reduced or increased under chapter 74.46 RCW.

(3) To obtain a rate add-on, the contractor shall submit a request for an add-on to its current prospective rate together with necessary documentation which shall include:

(a) A copy of the department of licensing approval of the administrator-in-training program, and

(b) A schedule indicating the commencement date, expected termination date, salary or wage, hours, and costs of benefits. The contractor shall notify the department, at least thirty days in advance, of the actual termination date of the administrator-in-training program. Upon termination of the program, the department shall reduce the current prospective rate by an amount corresponding to the rate add-on.

(4) If the contractor does not use the administrator-in-training funds for the purpose for which they were granted, the department shall immediately recoup the misspent or unused funds.

[Statutory Authority: RCW 74.46.800, 98-20-023, § 388-96-540, filed 9/25/98, effective 10/1/98.]

WAC 388-96-542 Home office or central office. (1) The department shall audit the home office or central office whenever a nursing facility receiving such services is audited.

(2)(a) Assets used in the provision of services by or to a nursing facility, but not located on the premises of the nursing facility, shall not be included in net invested funds or in the calculation of property payment for the nursing facility.

(b) The nursing facility may allocate depreciation, interest expense, and operating lease expense for the home office, central office, and other off-premises assets to the cost of the services provided to or by the nursing facility on a reasonable statistical basis approved by the department.

(c) The allocated costs of (b) of this subsection may be included in the cost of services in such cost centers where such services and related costs are appropriately reported.

(3) Home office or central office costs must be allocated and reported in conformity with the department-approved JCAD methodology as required by WAC 388-96-534.

(4) Home office or central office costs are subject to the limitation specified in RCW 74.46.410.

[Statutory Authority: Chapter 74.46 RCW as amended by 1998 c 322, § 19(11), RCW 74.46.270 and 74.46.800, 98-20-023, § 388-96-542, filed 9/25/98, effective 10/1/98.]

WAC 388-96-553 Capitalization. The following costs shall be capitalized:

(1) Expenditures for depreciable assets with historical cost in excess of seven hundred fifty dollars per unit and a useful life of more than one year from the date of purchase;

(2) Expenditures and costs for depreciable assets with historical cost of seven hundred fifty dollars or less per unit if either:

(a) The depreciable asset was acquired in a group purchase where the total cost exceeded seven hundred fifty dollars; or

(b) The depreciable asset was part of the initial equipment or stock of the nursing home; and

(3) Expenditures for any change, including repairs with a cost in excess of seven hundred fifty dollars that increases the useful life of the depreciable asset by two years or more.

[Statutory Authority: RCW 74.46.310, [74.46.]320 and [74.46.]330, 97-17-040, § 388-96-553, filed 8/14/97, effective 9/14/97. Statutory Authority: RCW 74.09.120, 83-19-047 (Order 2025), § 388-96-553, filed 9/16/83, 83-05-007 (Order 1944), § 388-96-553, filed 2/4/83, 82-11-065 (Order 1808), § 388-96-553, filed 5/14/82. Statutory Authority: RCW 74.09.120 and 74.46.800, 81-06-024 (Order 1613), § 388-96-553, filed 2/25/81, Order 1262, § 388-96-553, filed 12/30/77.]

WAC 388-96-554 Expensing. The following costs shall be expensed:

(1) Expenditures for depreciable assets with historical cost of seven hundred fifty dollars or less per unit or a useful life of one year or less from the date of purchase.

(2) Subsection (1) of this section shall not apply if:

(a) The depreciable asset was acquired in a group purchase where the total cost exceeded seven hundred fifty dollars; or

(b) The depreciable asset was part of the initial equipment or stock of the nursing home.

(3) Expenditures for and costs of building and other real property items, components and improvements, whether for leased or owner-operated facilities, of seven hundred and fifty dollars or less.

(4) Expenditures for and costs of repairs necessary to maintain the useful life of equipment, including furniture and furnishings, and real property items, components or improvements which do not increase the useful life of the asset by two years or more. If a repair is to the interior or exterior of the structure, the term "asset" shall refer to the structure.

(5) Remaining undepreciated cost of equipment, including furniture or furnishings or real property items, components, or improvements which are retired and not replaced, provided such cost shall be offset by any proceeds or com-

pensations received for such assets, and such cost shall be expensed only if the contractor has made a reasonable effort to recover at least the outstanding book value of such assets. If a retired asset is replaced, WAC 388-96-572(3) shall apply and the replacement or renewal shall be capitalized if required by WAC 388-96-553.

[Statutory Authority: RCW 74.46.310, [74.46.]320 and [74.46.]330, 97-17-040, § 388-96-554, filed 8/14/97, effective 9/14/97. Statutory Authority: RCW 74.09.120, 83-19-047 (Order 2025), § 388-96-554, filed 9/16/83, 83-05-007 (Order 1944), § 388-96-554, filed 2/4/83.]

WAC 388-96-559 Cost basis of land and depreciation base. (1) For all partial or whole rate periods after December 31, 1984 unless otherwise provided or limited by this chapter or by this section, chapter 388-96 WAC or chapter 74.46 RCW, the total depreciation base of depreciable assets and the cost basis of land shall be the lowest of:

(a) The contractor's appraisal, if any;

(b) The department's appraisal obtained through the department of general administration of the state of Washington, if any; or

(c) The historical purchase cost of the contractor, or lessor if the assets are leased by the contractor, in acquiring ownership of the asset in an arm's-length transaction, and preparing the asset for use, less goodwill, and less accumulated depreciation, if applicable, incurred during periods the assets have been used in or as a facility by any and all contractors. Such accumulated depreciation is to be measured in accordance with subsection (5) of this section and WAC 388-96-561, 388-96-565, and 388-96-567. Where the straight-line or sum-of-the-years digits method of depreciation is used the contractor:

(i) May deduct salvage values from historical costs for each cloth based item, e.g., mattresses, linen, and draperies; and

(ii) Shall deduct salvage values from historical costs of at least:

(A) Five percent of the historical value for each noncloth item included in moveable equipment; and

(B) Twenty-five percent of the historical value for each vehicle.

(2) Unless otherwise provided or limited by this chapter or by chapter 74.46 RCW, the department shall, in determining the total depreciation base of a depreciable real or personal asset owned or leased by the contractor, deduct depreciation relating to all periods subsequent to the more recent of:

(a) The date such asset was first used in the medical care program; or

(b) The most recent date such asset was acquired in an arm's-length purchase transaction which the department is required to recognize for Medicaid cost reimbursement purposes.

No depreciation shall be deducted for periods such asset was not used in the medical care program or was not used to provide nursing care.

(3) The department may have the fair market value of the asset at the time of purchase established by appraisal through the department of general administration of the state of Washington if:

(a) The department challenges the historical cost of an asset; or

(b) The contractor cannot or will not provide the historical cost of a leased asset and the department is unable to determine such historical cost from its own records or from any other source.

The contractor may allocate or reallocate values among land, building, improvements, and equipment in accordance with the department's appraisal.

If an appraisal is conducted, the depreciation base of the asset and cost basis of land will not exceed the fair market value of the asset. An appraisal conducted by or through the department of general administration shall be final unless the appraisal is shown to be arbitrary and capricious.

(4) If the land and depreciable assets of a newly constructed nursing facility were never used in or as a nursing facility before being purchased from the builder, the cost basis and the depreciation base shall be the lesser of:

(a) Documented actual cost of the builder; or

(b) The approved amount of the certificate of need issued to the builder.

When the builder is unable or unwilling to document its costs, the cost basis and the depreciation base shall be the approved amount of the certificate of need.

(5) For leased assets, the department may examine documentation in its files or otherwise obtainable from any source to determine:

(a) The lessor's purchase acquisition date; or

(b) The lessor's historical cost at the time of the last arm's-length purchase transaction.

If the department is unable to determine the lessor's acquisition date by review of its records or other records, the department, in determining fair market value as of such date, may use the construction date of the facility, as found in the state fire marshal's records or other records, as the lessor's purchase acquisition date of leased assets.

(6) For all rate periods past or future, where depreciable assets or land are acquired from a related organization, the contractor's depreciation base and land cost basis shall not exceed the base and basis the related organization had or would have had under a contract with the department.

(7) If a contractor cannot or will not provide the lessor's purchase acquisition cost of assets leased by the contractor and the department is unable to determine historical purchase cost from another source, the appraised asset value of land, building, or equipment, determined by or through the department of general administration shall be adjusted, if necessary, by the department using the *Marshall and Swift Valuation Guide* to reflect the value at the lessor's acquisition date. If an appraisal has been prepared for leased assets and the assets subsequently sell in the first arm's-length transaction since January 1, 1980, under subsection (9) of this section, the *Marshall and Swift Valuation Guide* will be used to adjust, if necessary, the asset value determined by the appraisal to the sale date. If the assets are located in a city for which the *Marshall and Swift Valuation Guide* publishes a specific index, or if the assets are located in a county containing that city, the city-specific index shall be used to adjust the appraised value of the asset. If the assets are located in a city or county for

which a specific index is not calculated, the *Western District Index* calculated by Marshall and Swift shall be used.

(8) For new or replacement building construction or for substantial building additions requiring the acquisition of land and which commenced to operate on or after July 1, 1997, the department shall determine allowable land costs of the additional land acquired for the new or replacement construction or for substantial building additions to be the lesser of:

(a) The contractor's or lessor's actual cost per square foot; or

(b) The square foot land value as established by an appraisal that meets the latest publication of the *Uniform Standards of Professional Appraisal Practice (USPAP)* and the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA). The department shall obtain a USPAP appraisal that meets FIRREA first from:

(i) An arms'-length lender that has accepted the ordered appraisal; or

(ii) If the department is unable to obtain from the arms'-length lender a lender-approved appraisal meeting USPAP and FIRREA standards or if the contractor or lessor is unable or unwilling to provide or cause to be provided a lender-approved appraisal meeting USPAP and FIRREA standards, then:

(A) The department shall order such an appraisal; and

(B) The contractor shall immediately reimburse the department for the costs incurred in obtaining the USPAP and FIRREA appraisal.

(9) Except as provided for in subsection (8) of this section, for all rates effective on or after January 1, 1985, if depreciable assets or land are acquired by purchase which were used in the medical care program on or after January 1, 1980, the depreciation base or cost basis of such assets shall not exceed the net book value existing at the time of such acquisition or which would have existed had the assets continued in use under the previous Medicaid contract with the department; except that depreciation shall not be accumulated for periods during which such assets were not used in the medical care program or were not in use in or as a nursing care facility.

(10)(a) Subsection (9) of this section shall not apply to the most recent arm's-length purchase acquisition if it occurs ten years or more after the previous arm's-length transfer of ownership nor shall subsection (9) of this section apply to the first arm's-length purchase acquisition of assets occurring on or after January 1, 1980, for facilities participating in the Medicaid program before January 1, 1980. The depreciation base or cost basis for such acquisitions shall not exceed the lesser of the fair market value as of the date of purchase of the assets determined by an appraisal conducted by or through the department of general administration or the owner's acquisition cost of each asset, land, building, or equipment. An appraisal conducted by or through the department of general administration shall be final unless the appraisal is shown to be arbitrary and capricious. Should a contractor request a revaluation of an asset, the contractor must document ten years have passed since the most recent arm's-length transfer of ownership. As mandated by Section 2314 of the Deficit Reduction Act of 1984 (P.L. 98-369) and state statu-

tory amendments, and under RCW 74.46.840, for all partial or whole rate periods after July 17, 1984, this subsection is inoperative for any transfer of ownership of any asset, including land and all depreciable or nondepreciable assets, occurring on or after July 18, 1984, leaving subsection (9) of this section to apply without exception to acquisitions occurring on or after July 18, 1984, except as provided in subsections (10)(b) and (11) of this section.

(b) For all rates after July 17, 1984, subsection (8)(a) shall apply, however, to transfers of ownership of assets:

(i) Occurring before January 1, 1985, if the costs of such assets have never been reimbursed under Medicaid cost reimbursement on an owner-operated basis or as a related party lease; or

(ii) Under written and enforceable purchase and sale agreements dated before July 18, 1984, which are documented and submitted to the department before January 1, 1988.

(c) For purposes of Medicaid cost reimbursement under this chapter, an otherwise enforceable agreement to purchase a nursing home dated before July 18, 1984, shall be considered enforceable even though the agreement contains:

(i) No legal description of the real property involved; or

(ii) An inaccurate legal description, notwithstanding the statute of frauds or any other provision of law.

(11)(a) In the case of land or depreciable assets leased by the same contractor since January 1, 1980, in an arm's-length lease, and purchased by the lessee/contractor, the lessee/contractor shall have the option to have the:

(i) Provisions of subsection (10) of this section apply to the purchase; or

(ii) Reimbursement for property and return on investment continue to be calculated under the provisions contained in RCW 74.46.530 (1)(e) and (f) and WAC 388-96-754(5). Reimbursement shall be based upon provisions of the lease in existence on the date of the purchase.

(b) The lessee/contractor may select the option in subsection (11)(a)(ii) of this section only when the purchase date meets one of the following criteria. The purchase date is:

(i) After the lessor has declared bankruptcy or has defaulted in any loan or mortgage held against the leased property;

(ii) Within one year of the lease expiration or renewal date contained in the lease;

(iii) After a rate setting for the facility in which the reimbursement rate set, under this chapter and under chapter 74.46 RCW, no longer is equal to or greater than the actual cost of the lease; or

(iv) Within one year of any purchase option in existence on January 1, 1988.

(12) For purposes of establishing the property and return on investment component rates, the value of leased equipment, if unknown by the contractor, may be estimated by the department using previous department of general administration appraisals as a data base. The estimated value may be adjusted using the *Marshall and Swift Valuation Guide* to reflect the value of the asset at the lessor's purchase acquisition date

[Statutory Authority: RCW 74.46.360, 97-17-040, § 388-96-559, filed 8/14/97, effective 9/14/97. Statutory Authority: RCW 74.46.800, 94-12-043

[Title 388 WAC—p. 362]

(Order 3737), § 388-96-559, filed 5/26/94, effective 6/26/94. Statutory Authority: RCW 74.09.120, 91-22-025 (Order 3270), § 388-96-559, filed 10/29/91, effective 11/29/91. Statutory Authority: RCW 79.09.120 [74.09.120] and 74.46.800, 90-09-061 (Order 2970), § 388-96-559, filed 4/17/90, effective 5/18/90. Statutory Authority: RCW 74.46.800, 88-16-079 (Order 2660), § 388-96-559, filed 8/2/88, 86-10-055 (Order 2372), § 388-96-559, filed 5/7/86, effective 7/1/86. Statutory Authority: RCW 74.09.120, 74.46.840 and 74.46.800, 85-17-052 (Order 2270), § 388-96-559, filed 8/19/85. Statutory Authority: RCW 74.09.120, 84-24-050 (Order 2172), § 388-96-559, filed 12/4/84, 81-22-081 (Order 1712), § 388-96-559, filed 11/4/81. Statutory Authority: RCW 74.09.120 and 74.46.800, 81-06-024 (Order 1613), § 388-96-559, filed 2/25/81, Order 1262, § 388-96-559, filed 12/30/77.]

WAC 388-96-561 Cost basis of land and depreciation base—Donated or inherited assets. (1) The cost basis or depreciation base of land or depreciable assets, either donated[,] or received through testate or intestate distribution, will be the lesser of:

(a) Fair market value at the date of donation or death, less goodwill, provided the estimated salvage value shall be deducted from fair market value where the straight-line or sum-of-the-years digits method of depreciation is used; or

(b) The historical cost of the owner last contracting with the department, if any.

(2) When the donation or distribution is between related organizations, the base shall be the lesser of:

(a) Fair market value, less goodwill and, where appropriate, salvage value; or

(b) The depreciation base or cost basis the related organization had or would have had for the asset under a contract with the department.

(3) Notwithstanding the provisions of subsections (1) and (2) of this section, for all rates after July 17, 1984, neither the depreciation base of depreciable assets nor the cost basis of land shall increase for reimbursement purposes if the asset is donated or acquired through testate or intestate distribution on or after July 18, 1984, the enactment date of the Deficit Reduction Act of 1984.

[Statutory Authority: RCW 79.09.120 [74.09.120] and 74.46.800, 90-09-061 (Order 2970), § 388-96-561, filed 4/17/90, effective 5/18/90. Statutory Authority: RCW 74.09.120, 84-24-050 (Order 2172), § 388-96-561, filed 12/4/84, 83-19-047 (Order 2025), § 388-96-561, filed 9/16/83. Statutory Authority: RCW 74.09.120 and 74.46.800, 81-06-024 (Order 1613), § 388-96-561, filed 2/25/81, Order 1262, § 388-96-561, filed 12/30/77.]

WAC 388-96-565 Lives. (1) Except for new buildings, major remodels and major repair projects as defined in subsection (3) of this section, the contractor shall use lives reflecting the estimated actual useful life of assets, for example, land improvements, buildings, equipment, leasehold improvements, and other assets. Lives shall not be shorter than guideline lives published by the American Hospital Association in computing allowable depreciation. In cases of newly constructed buildings containing newly licensed nursing home beds, the shortest lives shall be the most recently published lives for construction classes as defined and described in the *Marshall Valuation Service* published by the Marshall Swift Publication Company.

(2) The contractor shall measure lives from the date on which the assets were first used in the medical care program or from the date of the most recent arm's-length acquisition by purchase of the asset, whichever is more recent. The con-

tractor shall extend lives to reflect periods, if any, during which assets were not used to provide nursing care or were not used in the medical care program.

(3) Effective July 1, 1997, for depreciable assets acquired on or after July 1, 1997 including new facilities, major remodels, and major repair projects that begin operating on or after July 1, 1997, the department shall use the most current edition of *Estimated Useful Lives of Depreciable Hospital Assets* published by the American Hospital Publishing, Inc., to determine the useful life of depreciable assets, new building, major remodels, and major repair projects; provided that, the shortest life that may be used for new buildings is thirty years. New building, major remodels, and major repair projects are those projects that meet or exceed the expenditure minimum established by the department of health pursuant to chapter 70.38 RCW.

(4) Contractors shall depreciate building improvements other than major remodels and major repairs defined in subsection (3) of this section over the remaining useful life of the building, as modified by the improvement, but not less than fifteen years.

(5) Improvements to leased property which are the responsibility of the contractor under the terms of the lease shall be depreciated over the useful life of the improvement in accordance with American Hospital Association guidelines.

(6) A contractor may change the estimate of an asset's useful life to a longer life for purposes of depreciation.

[Statutory Authority: RCW 74.46.310, [74.46.]320 and [74.46.]330. 97-17-040, § 388-96-565, filed 8/14/97, effective 9/14/97. Statutory Authority: RCW 74.46.800. 94-12-043 (Order 3737), § 388-96-565, filed 5/26/94, effective 6/26/94. Statutory Authority: RCW 74.09.180 and 74.46.800. 89-01-095 (Order 2742), § 388-96-565, filed 12/21/88. Statutory Authority: RCW 74.46.800. 87-09-058 (Order 2485), § 388-96-565, filed 4/20/87; 86-10-055 (Order 2372), § 388-96-565, filed 5/7/86, effective 7/1/86. Statutory Authority: RCW 74.09.120. 83-19-047 (Order 2025), § 388-96-565, filed 9/16/83, 81-22-081 (Order 1712), § 388-96-565, filed 11/4/81. Statutory Authority: RCW 74.09.120 and 74.46.800. 81-06-024 (Order 1613), § 388-96-565, filed 2/25/81. Order 1262, § 388-96-565, filed 12/30/77.]

WAC 388-96-572 Handling of gains and losses upon retirement of depreciable assets—Other periods. (1) This section shall apply in the place of WAC 388-96-571 effective January 1, 1981, for purposes of settlement for settlement periods subsequent to that date, and for purposes of setting rates for rate periods beginning July 1, 1982, and subsequently.

(2) A gain or loss on the retirement of an asset shall be the difference between the remaining undepreciated base and any proceeds received for, or to compensate for loss of, the asset.

(3) If the retired asset is replaced, the gain or loss shall be applied against or added to the cost of the replacement asset, provided that a loss will only be so applied if the contractor has made a reasonable effort to recover at least the outstanding book value of the asset.

(4) If the retired asset is not replaced, any gain shall be offset against property expense for the period during which it is retired and any loss shall be expensed subject to the provisions of WAC 388-96-554(7).

[Statutory Authority: RCW 74.46.800, 74.46.450 and 74.09.120. 93-12-051 (Order 3555), § 388-96-572, filed 5/26/93, effective 6/26/93. Statutory

Authority: RCW 74.09.120. 83-19-047 (Order 2025), § 388-96-572, filed 9/16/83. Statutory Authority: RCW 74.09.120 and 74.46.800. 81-06-024 (Order 1613), § 388-96-572, filed 2/25/81.]

WAC 388-96-580 Operating leases of office equipment. (1) Rental costs of office equipment under arm's-length operating leases shall be allowable to the extent such costs are necessary, ordinary, and related to patient care.

(2) The department shall pay office equipment rental costs in the operations component rate allocation. Office equipment may include items typically used in administrative or clerical functions such as telephones, copy machines, desks and chairs, calculators and adding machines, file cabinets, typewriters, and computers.

(3) The department shall not pay for depreciation of leased office equipment.

[Statutory Authority: RCW 74.46.800. 98-20-023, § 388-96-580, filed 9/25/98, effective 10/1/98. Statutory Authority: RCW 74.46.800 and 74.09.120. 93-19-074 (Order 3634), § 388-96-580, filed 9/14/93, effective 10/15/93. Statutory Authority: RCW 74.09.120, 74.46.840 and 74.46.800. 85-17-052 (Order 2270), § 388-96-580, filed 8/19/85. Statutory Authority: RCW 74.09.120. 84-24-050 (Order 2172), § 388-96-580, filed 12/4/84. Statutory Authority: RCW 74.46.800. 84-12-039 (Order 2105), § 388-96-580, filed 5/30/84.]

WAC 388-96-585 Unallowable costs. (1) The department shall not allow costs if not documented, necessary, ordinary, and related to the provision of care services to authorized patients. Unallowable costs listed in subsection (2) of this section represent a partial summary of such costs, in addition to those unallowable under chapter 74.46 RCW and this chapter.

(2) The department shall include, but not limit, unallowable costs to the following:

(a) Costs in excess of limits or violating principles set forth in this chapter;

(b) Costs resulting from transactions or the application of accounting methods circumventing principles set forth in this chapter;

(c) Bad debts. Beginning July 1, 1983, the department shall allow bad debts of Title XIX recipients only if:

(i) The debt is related to covered services;

(ii) It arises from the recipient's required contribution toward the cost of care;

(iii) The provider can establish reasonable collection efforts were made;

(iv) The debt was actually uncollectible when claimed as worthless; and

(v) Sound business judgment established there was no likelihood of recovery at any time in the future.

Reasonable collection efforts shall consist of at least three documented attempts by the contractor to obtain payment demonstrating that the effort devoted to collecting the bad debts of Title XIX recipients is the same devoted by the contractor to collect the bad debts of non-Title XIX recipients;

(d) Any portion of trade association dues attributable to legal and consultant fees and costs in connection with lawsuits or other legal action against the department shall be unallowable;

(e) Legal and consultant fees in connection with a fair hearing against the department relating to those issues where

(i) A final administrative decision is rendered in favor of the department or where otherwise the determination of the department stands at the termination of administrative review; or

(ii) In connection with a fair hearing, a final administrative decision has not been rendered; or

(iii) In connection with a fair hearing, related costs are not reported as unallowable and identified by fair hearing docket number in the period they are incurred if no final administrative decision has been rendered at the end of the report period; or

(iv) In connection with a fair hearing, related costs are not reported as allowable, identified by docket number, and prorated by the number of issues decided favorably to a contractor in the period a final administrative decision is rendered;

(f) All interest costs not specifically allowed in this chapter or chapter 74.46 RCW;

(g) Increased costs resulting from a series of transactions between the same parties and involving the same assets, e.g., sale and lease back, successive sales or leases of a single facility or piece of equipment.

[Statutory Authority: RCW 74.46.800. 98-20-023, § 388-96-585, filed 9/25/98, effective 10/1/98. Statutory Authority: RCW 74.46.190, [74.46.1460 and [74.46.1800. 97-17-040, § 388-96-585, filed 8/14/97, effective 9/14/97. Statutory Authority: RCW 74.46.800. 96-15-056, § 388-96-585, filed 7/16/96, effective 8/16/96. Statutory Authority: RCW 74.46.800 and 1995 1st sp.s. c 18. 95-19-037 (Order 3896), § 388-96-585, filed 9/12/95, effective 10/13/95. Statutory Authority: RCW 74.46.800. 94-12-043 (Order 3737), § 388-96-585, filed 5/26/94, effective 6/26/94; 93-17-033 (Order 3615), § 388-96-585, filed 8/11/93, effective 9/11/93. Statutory Authority: RCW 74.46.800, 74.46.450 and 74.09.120. 93-12-051 (Order 3555), § 388-96-585, filed 5/26/93, effective 6/26/93. Statutory Authority: RCW 74.09.120. 91-22-025 (Order 3270), § 388-96-585, filed 10/29/91, effective 11/29/91. Statutory Authority: RCW 74.09.120 and 74.46.800. 90-09-061 (Order 2970), § 388-96-585, filed 4/17/90, effective 5/18/90. Statutory Authority: RCW 74.46.800. 89-17-030 (Order 2847), § 388-96-585, filed 8/8/89, effective 9/8/89. Statutory Authority: RCW 74.09.180 and 74.46.800. 89-01-095 (Order 2742), § 388-96-585, filed 12/21/88. Statutory Authority: RCW 74.46.800. 87-09-058 (Order 2485), § 388-96-585, filed 4/20/87; 86-10-055 (Order 2372), § 388-96-585, filed 5/7/86, effective 7/1/86; 84-12-039 (Order 2105), § 388-96-585, filed 5/30/84. Statutory Authority: RCW 74.09.120. 83-19-047 (Order 2025), § 388-96-585, filed 9/16/83; 82-21-025 (Order 1892), § 388-96-585, filed 10/13/82; 82-11-065 (Order 1808), § 388-96-585, filed 5/14/82; 81-22-081 (Order 1712), § 388-96-585, filed 11/4/81. Statutory Authority: RCW 74.09.120 and 74.46.800. 81-06-024 (Order 1613), § 388-96-585, filed 2/25/81. Statutory Authority: RCW 74.09.120. 79-04-102 (Order 1387), § 388-96-585, filed 4/4/79. Statutory Authority: RCW 74.08.090 and 74.09.120. 78-06-080 (Order 1300), § 388-96-585, filed 6/1/78, Order 1262, § 388-96-585, filed 12/30/77.]

WAC 388-96-704 Prospective payment rates. The department, as provided in chapter 74.46 RCW and this chapter, shall determine, adjust, or update prospective Medicaid payment rates for nursing facility services provided to medical care recipients. Each rate, subject to the principles of this chapter and chapter 74.46 RCW, represents a nursing facility's maximum compensation for one resident day of care provided a medical care recipient determined by the department to both require and be eligible to receive nursing facility care.

[Statutory Authority: Chapter 74.46 RCW as amended by 1998 c 322. 98-20-023, § 388-96-704, filed 9/25/98, effective 10/1/98. Statutory Authority: RCW 74.46.800 and 1995 1st sp.s. c 18. 95-19-037 (Order 3896), § 388-96-704, filed 9/12/95, effective 10/13/95. Statutory Authority: RCW 74.46.800. 94-12-043 (Order 3737), § 388-96-704, filed 5/26/94, effective

6/26/94. Statutory Authority: RCW 74.09.120. 82-21-025 (Order 1892), § 388-96-704, filed 10/13/82. Statutory Authority: RCW 74.08.090 and 74.09.120. 78-06-080 (Order 1300), § 388-96-704, filed 6/1/78. Statutory Authority: RCW 74.09.120. 78-02-013 (Order 1264), § 388-96-704, filed 1/9/78.]

WAC 388-96-705 Payment for services after settlement. When payment for services is first made following preliminary or final settlement for the period during which the services were provided, payment will be at the most recent available settlement rate.

[Statutory Authority: RCW 74.09.120. 81-22-081 (Order 1712), § 388-96-705, filed 11/4/81.]

WAC 388-96-708 Reinstatement of beds previously removed from service under chapter 70.38 RCW—Effect on prospective payment rate. (1) After removing beds from service (banked) under the provisions of chapter 70.38 RCW the contractor may bring back into service beds that were previously banked.

(2) When the contractor returns to service beds banked under the provisions of chapter 70.38 RCW, the department will recalculate the contractor's prospective payment rate allocations based on the facility's anticipated resident occupancy level following the increase in licensed bed capacity.

(3) The effective date of the recalculated prospective rate for beds returned to service:

(a) Between the first and the fifteenth of a month, shall be the first of the month in which the banked beds returned to service; or

(b) Between the sixteenth and the end of a month, shall be the first of the month following the month in which the banked beds returned to service.

(4) The recalculated prospective payment rate shall comply with all the provisions of rate setting contained in chapter 74.46 RCW or in this chapter, including all lids and maximums unless otherwise specified in this section.

(5) The recalculated prospective Medicaid payment rate shall be subject to adjustment if required by RCW 74.46.421.

[Statutory Authority: 1998 c 322 § 19(11). 98-20-023, § 388-96-708, filed 9/25/98, effective 10/1/98. Statutory Authority: RCW 74.46.800. 96-15-056, § 388-96-708, filed 7/16/96, effective 8/16/96.]

WAC 388-96-709 Prospective rate revisions—Reduction in licensed beds. (1) The department will revise a contractor's prospective rate when the contractor reduces the number of its licensed beds and:

(a) Notifies the department in writing thirty days before the licensed bed reduction; and

(b) Supplies a copy of the new bed license and documentation of the number of beds sold, exchanged or otherwise placed out of service, along with the name of the contractor that received the beds, if any; and

(c) Requests a rate revision.

(2) The revised prospective rate shall comply with all the provisions of rate setting contained in chapter 74.46 RCW and in this chapter, including all lids and maximums, unless otherwise specified in this section.

(3) The revised prospective payment rate shall be effective the first of a month determined as follows:

(a) When the contractor complies with subsection (1)(b) and (c) of this section and the effective date of the licensed bed reduction falls:

(i) Between the first and the fifteenth of the month, then the revised prospective rate is effective the first of the month in which the licensed bed reduction occurs; or

(ii) Between the sixteenth and the end of the month, then the revised prospective rate is effective the first of the month following the month in which the licensed bed reduction occurs.

(b) The department shall revise a nursing facility's prospective rate to reflect a reduction in licensed beds as follows:

(i) The department shall use the reduced total number of licensed beds to determine occupancy used to calculate the direct care, therapy care, support services and operations rate component allocations. If actual occupancy from the rate base cost report is:

(A) At or over eighty-five percent before the reduction and remains at or above eighty-five percent, there will be no change to the component allocations;

(B) Less than eighty-five percent before the reduction and changes to at or above eighty-five percent, then recompute the components using actual rate based resident days; or

(C) Less than eighty-five percent before the reduction and remains below eighty-five percent, then recompute the components using the change in resident days from the rate base cost report resulting from the reduced number of licensed beds used to calculate the eighty-five percent.

(ii) To determine occupancy used to calculate the property and return on investment (ROI) rate component allocations, the department shall use the facility's anticipated resident occupancy level subsequent to the decrease in licensed bed capacity as long as the occupancy for the reduced number of beds is at or above eighty-five percent and in no case shall the department use less than eighty-five percent occupancy of the facility's reduced licensed bed capacity.

[Statutory Authority: Chapter 74.46 RCW as amended by 1998 c 322 § 19(11) and RCW 74.46.800, 98-20-023, § 388-96-709, filed 9/25/98, effective 10/1/98. Statutory Authority: RCW 74.46.510, 97-17-040, § 388-96-709, filed 8/14/97, effective 9/14/97. Statutory Authority: RCW 74.46.800 and 1995 1st sp.s. c 18, 95-19-037 (Order 3896), § 388-96-709, filed 9/12/95, effective 10/13/95. Statutory Authority: RCW 74.46.800, 94-12-043 (Order 3737), § 388-96-709, filed 5/26/94, effective 6/26/94. Statutory Authority: RCW 74.46.800, 74.46.450 and 74.09.120, 93-12-051 (Order 3555), § 388-96-709, filed 5/26/93, effective 6/26/93.]

WAC 388-96-710 Prospective payment rate for new contractors. (1) The department shall establish an initial prospective Medicaid payment rate for a new contractor as defined under WAC 388-96-026 within sixty days following the new contractor's application and approval for a license to operate the facility under chapter 18.51 RCW. The rate shall take effect as of the effective date of the contract, except as provided in this section, and shall comply with all the provisions of rate setting contained in chapter 74.46 RCW and in this chapter, including all lids and maximums set forth.

(2) Except for quarterly updates per RCW 74.46.501 (7)(c), the rate established for a new contractor as defined in WAC 388-96-026 (1)(a) or (b) shall remain in effect for the nursing facility until the rate can be reset effective July 1

using the first cost report for that facility under the new contractor's operation containing at least six months' data from the prior calendar year, regardless of whether reported costs for facilities operated by other contractors for the prior calendar year in question will be used to cost rebase their July 1 rates. The new contractor's rate thereafter shall be cost rebased only as provided in this chapter and chapter 74.46 RCW.

(3) To set the initial prospective Medicaid payment rate for a new contractor as defined in WAC 388-96-026 (1)(a) and (b), the department shall:

(a) Determine whether the new contractor nursing facility belongs to the metropolitan statistical area (MSA) peer group or the non-MSA peer group using the latest information received from the office of management and budget or the appropriate federal agency;

(b) Select all nursing facilities from the department's records of all the current Medicaid nursing facilities in the new contractor's peer group with the same bed capacity plus or minus ten beds. If the selection does not result in at least seven facilities, then the department will increase the bed capacity by plus or minus five bed increments until a sample of at least seven nursing facilities is obtained;

(c) Based on the information for the nursing facilities selected under subsection (3)(b) of this section and available to the department on the day the new contractor began participating in the Medicaid payment rate system at the facility, rank from the highest to the lowest the component rate allocation in direct care, therapy care, support services, and operations cost centers and based on this ranking:

(i) Determine the middle of the ranking and then identify the rate immediately above the median for each cost center identified in subsection (3)(c) of this section. The rate immediately above the median will be known as the "selected rate" for each cost center;

(ii) Set the new contractor's nursing facility component rate allocation for therapy care, support services, and operations at the "selected rate";

(iii) Set the direct care rate using data from the direct care "selected" rate facility identified in (c) of this subsection as follows:

(A) The cost per case mix unit shall be the rate base allowable case mixed direct care cost per patient day for the direct care "selected" rate facility, whether or not that facility is held harmless under WAC 388-96-728 and 388-96-729, divided by the facility average case mix index per WAC 388-96-741;

(B) The cost per case mix unit determined under (c)(iii)(A) of this subsection shall be multiplied by the Medicaid average case mix index per WAC 388-96-740. The product shall be the new contractor's direct care rate under case mix; and

(C) The department shall not apply RCW 74.46.506 (5)(k) to any direct care rate established under subsection (5)(e) or (f) of this section. A new contractor whose direct care rate was established under subsection (5)(e) or (f) of this section is not eligible to be paid by a "hold harmless" rate as determined under RCW 74.46.506 (5)(k);

(iv) Set the property rate in accordance with the provisions of this chapter and chapter 74.46 RCW; and

(v) Set the return on investment rate in accordance with the provisions of this chapter and chapter 74.46 RCW. In computing the financing allowance, the department shall use for direct care, therapy care, support services and operations cost centers the rates set pursuant to subsection (3)(c)(i), (ii) and (iii) of this section.

(d) Any subsequent revisions to the rate component allocations of the sample members will not impact a "selected rate" component allocation of the initial prospective rate established for the new contractor under this subsection.

(4) For the WAC 388-96-026 (1)(a) or (b) new contractor, the department shall establish rate component allocations for:

(a) Direct care, therapy care, support services and operations cost centers based on the "selected rates" as determined under subsection (3)(c) of this section that are in effect on the date the new contractor began participating in the program; and

(b) Property in accordance with the provisions of this chapter and chapter 74.46 RCW using for the new contractor as defined under:

(i) WAC 388-96-026 (1)(a), information from the certificate of need; or

(ii) WAC 388-96-026 (1)(b), information provided by the new contractor within ten days of the date the department requests the information in writing. If the contractor as defined under WAC 388-96-026 (1)(b), has not provided the requested information within ten days of the date requested, then the property rate will be zero. The property rate will remain zero until the information is received.

(c) Return on investment rate in accordance with the provisions of this chapter and chapter 74.46 RCW using the "selected rates" established under subsection (3)(c) of this section that are in effect on the date the new contractor began participating in the program, to compute the working capital provision and variable return for the new contractor as defined under:

(i) WAC 388-96-026 (1)(a), information from the certificate of need; or

(ii) WAC 388-96-026 (1)(b), information provided by the new contractor within ten days of the date the department requests the information in writing. If the contractor as defined under WAC 388-96-026 (1)(b), has not provided the requested information within ten days of the date requested, then the net book value of allowable assets will be zero. The financing allowance rate component will remain zero until the information is received.

(5) The initial prospective payment rate for a new contractor as defined under WAC 388-96-026 (1)(a) or (b) shall be established under subsections (3) and (4) of this section. If the WAC 388-96-026 (1)(a) or (b) contractor's initial rate:

(a) Was set before January 1, 1997, and the contractor does not have six months or greater of cost report data for 1996, the October 1, 1998, rate will be set using the contractor's 1997 cost report. Its July 1, 1999, and July 1, 2000, rates will not be cost rebased;

(b) Was set between January 1, 1997, and June 30, 1997, the October 1, 1998, rate will be set using the contractor's 1997 cost report. Its July 1, 1999, and July 1, 2000, rates will not be cost rebased;

(c) Was set between July 1, 1997, and June 30, 1998, the October 1, 1998, rate will be the revised initial sample based rate using October 1, 1998, rate data for direct care, therapy care, support services, and operations, and following the steps identified in subsection (3)(c)(i) and (ii) of this section. There will be no change to the facilities identified in the initial rate under subsection (3)(b) of this section. There will be no change to the property rate. The financing allowance will be revised. The contractor's July 1, 1999, rate will be rebased using 1998 cost report data. Its July 1, 2000, rate will not be cost rebased;

(d) Was set between July 1, 1998, and September 30, 1998, the October 1, 1998, rate will be the revised initial sample based rate using October 1, 1998, rate data for direct care, therapy care, support services, and operations, and following the steps identified in subsection (3)(c)(i) and (ii) of this section. There will be no change to the facilities identified in the initial rate under subsection (3)(b) of this section. There will be no change to the property rate. The financing allowance will be revised. The July 1, 1999, rate will be revised in the same manner using July 1, 1999, rate data. The July 1, 2000, rate will be rebased using 1999 cost report data;

(e) Is set between October 1, 1998, and June 30, 1999, the initial rate is set in accordance with subsections (3) and (4) of this section. The July 1, 1999, rate will be the revised initial sample based rate using July 1, 1999, rate data for direct care, therapy care, support services, and operations, and following the steps identified in subsection (3)(c)(i) and (ii) of this section. There will be no change to the facilities identified in the initial rate under subsection (3)(b) of this section. There will be no change to the property rate. The financing allowance will be revised. The July 1, 2000, rate will be rebased using 1999 cost report data; or

(f) Is set between July 1, 1999, and June 30, 2000, the initial rate is set in accordance with subsections (3) and (4) of this section. The July 1, 2000, rate will be the revised initial sample based rate using July 1, 2000, rate data for direct care, therapy care, support services, and operations, and following the steps identified in subsection (3)(c)(i) and (ii) of this section. There will be no change to the facilities identified in the initial rate under subsection (3)(b) of this section. There will be no change to the property rate. The financing allowance will be revised.

(6) For the WAC 388-96-026 (1)(c) new contractor, the initial prospective payment rate shall be the last prospective payment rate the department paid to the Medicaid contractor operating the nursing facility immediately prior to the effective date of the new Medicaid contract or assignment. If the WAC 388-96-026 (1)(c) contractor's initial rate:

(a) Was set before January 1, 1997, and the new contractor does not have a cost report containing at least six months' data from 1996, its October 1, 1998, rate will be set by using twelve months of cost report data derived from the old contractor's data and the new contractor's data for the 1996 cost report year and its July 1, 1999, and July 1, 2000, rates will not be cost rebased;

(b) Was set between January 1, 1997, and September 30, 1998, its October 1, 1998, rate will be set by using the old contractor's 1996 twelve months' cost report data and its July 1, 1999, and July 1, 2000, rates will not be cost rebased; or

(c) Is set on or after October 1, 1998, its July 1, 1999, and July 1, 2000, rates will not be cost rebased.

(7) A prospective payment rate set for all new contractors shall be subject to adjustments for economic trends and conditions as authorized and provided in this chapter and in chapter 74.46 RCW. For the WAC 388-96-026 (1)(a) or (b) new contractor, to adjust the October 1, 1998, payment rate for economic trends and conditions, the department shall apply a 2.96 percent inflation factor to direct care, therapy care, support services, and operations rate components.

(8) For a WAC 388-96-026 (1)(a), (b) or (c), the Medicaid case mix index and facility average case mix index shall be determined in accordance with this chapter and chapter 74.46 RCW.

[Statutory Authority: Chapter 74.46 RCW as amended by 1998 c 322 § 19(11) and RCW 74.46.800. 98-20-023, § 388-96-710, filed 9/25/98, effective 10/1/98. Statutory Authority: RCW 74.46.800 and 1995 1st sp.s. c 18, 95-19-037 (Order 3896), § 388-96-710, filed 9/12/95, effective 10/13/95. Statutory Authority: RCW 74.46.800. 94-12-043 (Order 3737), § 388-96-710, filed 5/26/94, effective 6/26/94; 93-17-033 (Order 3615), § 388-96-710, filed 8/11/93, effective 9/11/93. Statutory Authority: RCW 74.46.800, 74.46.450 and 74.09.120. 93-12-051 (Order 3555), § 388-96-710, filed 5/26/93, effective 6/26/93. Statutory Authority: RCW 74.46.800. 92-16-013 (Order 3424), § 388-96-710, filed 7/23/92, effective 8/23/92. Statutory Authority: 1987 c 476. 88-01-126 (Order 2573), § 388-96-710, filed 12/23/87. Statutory Authority: RCW 74.46.800. 87-09-058 (Order 2485), § 388-96-710, filed 4/20/87. Statutory Authority: RCW 74.09.120. 83-19-047 (Order 2025), § 388-96-710, filed 9/16/83; 78-02-013 (Order 1264), § 388-96-710, filed 1/9/78.]

WAC 388-96-713 Rate determination. (1) Each nursing facility's Medicaid payment rate for services provided to medical care recipients will be determined, adjusted and updated prospectively as provided in this chapter and in chapter 74.46 RCW.

(2) If the contractor participated in the program for less than six months of the prior calendar year, its rates will be determined by procedures set forth in WAC 388-96-710.

(3) Contractors submitting correct and complete cost reports by March 31st, shall be notified of their rates by July 1st, unless circumstances beyond the control of the department interfere.

[Statutory Authority: RCW 74.46.800. 98-20-023, § 388-96-713, filed 9/25/98, effective 10/1/98. Statutory Authority: RCW 74.46.800 and 1995 1st sp.s. c 18, 95-19-037 (Order 3896), § 388-96-713, filed 9/12/95, effective 10/13/95. Statutory Authority: RCW 74.46.800 and 74.09.120. 93-19-074 (Order 3634), § 388-96-713, filed 9/14/93, effective 10/15/93; 90-09-061 (Order 2970), § 388-96-713, filed 4/17/90, effective 5/18/90. Statutory Authority: RCW 74.09.120. 83-19-047 (Order 2025), § 388-96-713, filed 9/16/83; 81-15-049 (Order 1669), § 388-96-713, filed 7/15/81; 80-06-122 (Order 1510), § 388-96-713, filed 5/30/80, effective 7/1/80; 78-02-013 (Order 1264), § 388-96-713, filed 1/9/78.]

WAC 388-96-718 Public process for determination of rates. (1) The purpose of this section is to describe the manner in which the department will comply with the federal Balanced Budget Act of 1997, Section 4711 (a)(1), codified at 42 U.S.C. 1396a (a)(13)(A).

(2) For all material changes to the methodology for determining nursing facility Medicaid payment rates occurring after October 1, 1997, and requiring a Title XIX state plan amendment to be submitted to and approved by the Health Care Financing Administration under applicable fed-

eral laws, the department shall follow the following public process:

(a) The proposed estimated initial payment rates, the proposed new methodologies for determining the payment rates, and the underlying justifications shall be published. Publication shall be:

(i) In the Washington State Register; or

(ii) In the Seattle Times and Spokane Spokesman Review newspapers.

(b) The department shall maintain and update as needed a mailing list of all individuals and organizations wishing to receive notice of changes to the nursing facility Medicaid payment rate methodology, and all materials submitted for publication shall be sent postage prepaid by regular mail to such individuals and organizations. Individuals and organizations wishing to receive notice shall notify the department in writing.

(c) Nursing facility providers, their associations, nursing facility Medicaid beneficiaries, representatives of providers or beneficiaries, and other concerned members of the public shall be given a reasonable opportunity to review and comment on the proposed estimated rates, methodologies and justifications. The period allowed for review and comment shall not be less than thirty calendar days after the date of the Washington State Register containing the published material or the date the published material has appeared in both the Seattle Times and the Spokane Spokesman Review.

(d) If, after receiving and considering all comments, the department decides to move ahead with any change to its nursing facility Medicaid payment rate methodology, it shall adopt needed further changes in response to comments, if any, and shall publish the final estimated initial rates, final rate determination methodologies and justifications. Publication shall be:

(i) In the Washington State Register; or

(ii) In the Seattle Times and Spokane Spokesman Review newspapers.

(e) Unless an earlier effective date is required by state or federal law, implementation of final changes in methodologies and commencement of the new rates shall not occur until final publication has occurred in the Register or in both designated newspapers. The department shall not be authorized to delay implementation of, or to alter, ignore or violate requirements of, state or federal laws in response to public process comments.

(f) Publication of proposed estimated initial payment rates and final estimated initial payment rates shall be deemed complete once the department has published:

(i) The statewide average proposed estimated initial payment rate weighted by adjusted Medicaid resident days for all Medicaid facilities from the most recent cost report year, including the change from the existing statewide average payment rate weighted by adjusted Medicaid resident days for all Medicaid facilities from the most recent cost report year; and

(ii) The statewide average final estimated initial payment rate weighted by adjusted Medicaid resident days for all Medicaid facilities from the most recent cost report year, including the change from the existing statewide average payment rate weighted by adjusted Medicaid resident days

for all Medicaid facilities from the most recent cost report year.

(3) Nothing in this section shall be construed to prevent the department from commencing or completing the public process authorized by this section even though the proposed changes to the methodology for determining nursing facility Medicaid payment rates are awaiting federal approval, or are the subject of pending legislative, gubernatorial or rule-making action and are yet to be finalized in statute and/or regulation.

(4)(a) Neither a contractor nor any other interested person or organization shall challenge, in any administrative appeals or exception procedure established in rule by the department under the provisions of chapter 74.46 RCW, the adequacy or validity of the public process followed by the department in proposing or implementing a change to the payment rate methodology, regardless of whether the challenge is brought to obtain a ruling on the merits or simply to make a record for subsequent judicial or other review. Such challenges shall be pursued only in courts of proper jurisdiction as may be provided by law.

(b) Any challenge to the public process followed by the department that is brought in the course of an administrative appeals or exception procedure shall be dismissed by the department or presiding officer, with prejudice to further administrative review and record-making, but without prejudice to judicial or other review as may be provided by law.

(5) The public process required and authorized by this section shall not apply to any change in the payment rate methodology that does not require a Title XIX state plan amendment under applicable federal laws, including but not limited to:

(a) Prospective or retrospective changes to nursing facility payment rates or to methodologies for establishing such rates ordered by a court or administrative tribunal, after exhaustion of all appeals by either party as may be authorized by law, or the expiration of time to appeal; or

(b) Changes to nursing facility payment rates for one or more facilities resulting from the application of authorized payment rate methodologies, principles or adjustments, including but not limited to: partial or phased-in termination or implementation of rate methodologies; scheduled cost rebasing; quarterly or other updates to reflect changes in case mix or other private or public source data used to establish rates; adjustments for inflation or economic trends and conditions; rate funding for capital improvements or new requirements imposed by the department; changes to resident-specific or exceptional care rates; and changes to correct errors or omissions by the contractor or the department.

[Statutory Authority: RCW 74.46.800, 74.09.500 and 74.08.090, 98-19-062, § 388-96-718, filed 9/16/98, effective 10/17/98.]

WAC 388-96-723 How often will the department compare the state-wide weighted average payment rate for all nursing facilities with the state-wide weighted average payment rate identified in the Biennial Appropriations Act? (1) On a monthly basis, the department will compare the state-wide weighted average payment rate for all nursing facilities with the state-wide weighted average payment rate identified in the Biennial Appropriations Act.

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To determine the state-wide weighted average payment rate, the department shall use total billed Medicaid days and total billed Medicaid dollars.

(2) Under RCW 74.46.421, the department must implement a reduction in all nursing facilities' component rates any time its comparison indicates that the state-wide weighted average payment rate for all nursing facilities:

(a) Exceeds the state-wide weighted average payment rate identified in the Biennial Appropriations Act; or

(b) Is likely to exceed the state-wide weighted average payment rate identified in the Biennial Appropriations Act.

[Statutory Authority: RCW 74.46.421 and 74.46.800, 98-20-023, § 388-96-723, filed 9/25/98, effective 10/1/98.]

WAC 388-96-724 How much advance notice will a nursing facility receive of a rate reduction? (1) The department will notify the nursing facility at least twenty-eight calendar days in advance of the effective date of a reduction taken under RCW 74.46.421.

(2) The rate reduction taken under RCW 74.46.421 will be effective the first day of the month following the twenty-eight calendar day advance notice.

[Statutory Authority: RCW 74.46.421 and 74.46.800, 98-20-023, § 388-96-724, filed 9/25/98, effective 10/1/98.]

WAC 388-96-725 After the rate reductions when will a nursing facility's rates return to their previous level?

(1) The rate reductions to all nursing facilities' component rates taken in accordance with RCW 74.46.421 will not be reversed.

(2) If after a reduction a nursing facility is eligible to receive an increase in a component rate for some unrelated change, e.g., a change in the Medicaid case mix index causes the direct care rate to increase, the department must apply the increase to the rate reduced by application of RCW 74.46.421.

(3) Reductions made under RCW 74.46.421 are cumulative. When a monthly comparison indicates that the state-wide weighted average payment rate for all nursing facilities will exceed or exceeds the state-wide weighted average payment rate identified in the Biennial Appropriations Act, under RCW 74.46.421, the department must reduce the component rates for all nursing facilities without reversing any previous reductions or forgoing any future reductions.

[Statutory Authority: RCW 74.46.421 and 74.46.800, 98-20-023, § 388-96-725, filed 9/25/98, effective 10/1/98.]

WAC 388-96-726 If a nursing facility's component rates are below the state-wide weighted average payment rate identified in the Biennial Appropriations Act, will the department reduce the facility's component rates when it makes a rate reduction under RCW 74.46.421?

(1) Even if an individual nursing facility's component rates are below the state-wide weighted average payment rate identified in the Biennial Appropriations Act, the department must reduce the nursing facility's component rates as required under RCW 74.46.421.

(2) The department shall not exempt any nursing facility from a component rates reduction required by RCW 74.46.421 for any circumstance, e.g., billed Medicaid days.